



County of Los Angeles CHIEF EXECUTIVE OFFICE

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WILLIAM T FUJIOKA
Chief Executive Officer

May 31, 2011

To: Mayor Michael D. Antonovich
Supervisor Gloria Molina
Supervisor Mark Ridley-Thomas
Supervisor Zev Yaroslavsky
Supervisor Don Knabe

From: William T Fujioka
Chief Executive Officer

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STATUS REPORT TO THE BOARD ORDER OF JANUARY 18, 2011 TO MONITOR MUNICIPAL BANKRUPTCIES IN THE UNITED STATES THAT WOULD HAVE A DIRECT IMPACT ON OUR MUNICIPALITIES AND REPORT BACK ON THE COURT DECISION ON THE CITY OF VALLEJO BANKRUPTCY PLAN

On January 18, 2011, Mayor Antonovich requested the Chief Executive Office to monitor municipal bankruptcies in the United States that would have a direct impact on our municipalities and report back on the court decision on the City of Vallejo bankruptcy plan. This is the third status report to provide information on recent court actions regarding the City of Vallejo's bankruptcy plan and an update on new developments related to municipal bankruptcies.

City of Vallejo

As reported on February 22, 2011, the City of Vallejo filed for bankruptcy in 2008, and on January 18, 2011, the City filed a plan for the adjustment of debts with the United States Bankruptcy Court. The City's plan proposed to: 1) renegotiate labor contracts; 2) develop a new employee benefits structure; 3) reduce employee benefits; and 4) restructure capital and infrastructure projects. On March 7, 2011, the United States Bankruptcy Court conducted a hearing to review the City's bankruptcy plan and heard arguments concerning the adequacy of the plan. However, Presiding Judge Michael McManus left the case open, but stated that the case has been pending long enough and he expects to hear final arguments on the City's plan to exit bankruptcy no later than June 2011.

"To Enrich Lives Through Effective And Caring Service"

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On May 25, 2011, Judge McManus approved the disclosure statement for the bankruptcy plan, which contains a summary of the City's post-bankruptcy plans, and the bankruptcy exit plan would be sent to creditors in the coming weeks. Creditors, including banks and former employees whose contracts and health benefits have been modified in the past three years of bankruptcy, will have a month to respond to the court. Objections by a committee of retired city employees were addressed in the updated plan, and no further objections have been logged to date.

Prior to the City of Vallejo's exit from bankruptcy, creditors will have an opportunity to vote on the exit plan and their votes will be taken into consideration by the Judge. The City's exit from bankruptcy could be confirmed at a hearing on July 28, 2011.

Municipal Bankruptcy Recent Developments

As reported in the May 27, 2011 Sacramento Update, AB 506 (Wieckowski), as amended on March 31, 2011, would impose mediation requirement for local agencies prior to seeking Chapter 9 bankruptcy protection under the Federal bankruptcy process. Currently, Federal law authorizes municipalities to file a bankruptcy petition pursuant to Chapter 9 and provides financially-distressed municipalities protection from its creditors while the municipality develops and negotiates a plan for adjusting its debts. AB 506 would require local government agencies to participate in mediation prior to filing bankruptcy under Federal bankruptcy laws.

According to the California State Association of Counties, given the complex nature of governance and funding of public services in California, it is difficult to envision a mediation process, as proposed under AB 506, that would be timely and effective for local governments in fiscal distress. The League of California Cities indicates that AB 506 would create an obstacle course of new criteria and conditions that are replete with bias against local government agencies. AB 506 passed the Assembly Appropriations Committee by a vote of 5 to 3 on May 5, 2011 and is currently in the Assembly Appropriations Committee suspense file.

Other Bankruptcy Developments

On May 26, 2011, the Rhode Island State Senate approved a proposal which would require municipalities to guarantee lenders first rights to their property taxes and general revenue in the event of a bankruptcy. The proposal still requires approval by the State's House of Representatives.

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According to Governor Chaffee's office, which drafted the proposal, the bill would improve the ability of all municipalities to borrow money in a challenging financial market. However, the Rhode Island League of Cities and Towns, which advocates on behalf of the State's 39 municipalities, has indicated that the proposal is not in the best interests of local jurisdictions. Peder A. Schaefer, Associate Director of the League, indicated that the current bankruptcy law is sufficient and that no other state requires cities and towns to adhere to such requirements.

We will continue to monitor municipal bankruptcies and the City of Vallejo bankruptcy proceedings and will report back to your Board when major developments take place.

WTF:RA
MR:RM:er

c: Executive Office, Board of Supervisors
County Counsel